

## Message Text

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17L

ACTION EA-10

INFO OCT-01 ISO-00 EB-07 COME-00 SS-15 NSC-05 L-02 INR-07

CIAE-00 SP-02 /049 W

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P 020942Z MAY 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 7934

C O N F I D E N T I A L JAKARTA 5276

E.O. 11652: GDS

TAGS: BEXP BINV EIND ID

SUBJECT: KRAKATAU STEEL: CONSULTING SERVICES

REF: A. STATE 100856 AND PREVIOUS B. JAKARTA 5009

SUMMARY. ON BASIS CONSIDERATIONS MENTIONED BELOW,  
EMBASSY CONVICTED USG ROLE IN SELECTION KRAKATAU  
CONSULTANT MUST BE LIMITED TO ENSURING MCKEE AND  
ARMCO AWARE OF NEED TO RESPOND PROMPTLY AND  
STRONGLY TO INVITATION TO BID. IF ONE OF THESE  
CHOOSES NOT TO RESPOND FAVORABLY AND IS WILLING TO  
WITHDRAW IN FAVOR OF ANOTHER APPROPRIATE U.S. FIRM,

PRESUME ALTERNATE FIRM WOULD HAVE TO MEET CONDITIONS  
AND DEADLINE IN INVITATION EVEN TO BE CONSIDERED.

END SUMMARY.

1. WE NOW LEARN TELEX INVITING CONSULTANTS TO  
EXPRESS INTEREST IN KRAKATAU STEEL WORK WAS POSTPONED  
AND AMENDED. BELIEVE INVITATION ISSUED TODAY,  
FRIDAY, MAY 2, AND SHOULD BE IN HANDS ARMCO AND  
MCKEE BY TIME THIS MESSAGE IS RECEIVED. OTHER FIRMS  
ON LIST ARE FRENCH SOPRASID AND U.K. ATKINS.

2. BECAUSE OF ABOVE DELAY, REACTION TIME IS EVEN  
SHORTER THAN ANTICIPATED. CONSULTANT WOULD  
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HAVE TO FIELD AT LEAST SIX VERY ABLE MEN "ALMOST

IMMEDIATELY" TO DEVELOP INDEPENDENT EVALUATION OF WORK ALREADY DONE, NOTABLY BY PERROSTAAL, SIEMENS, AND KLOCKNER, AS BASIS FOR NEGOTIATIONS BEGINNING 1 JUNE TO PARE DOWN CONTRACTS CURRENTLY VALUED AT CIRCA \$1 BILLION. SERVICES OF SENIOR ADVISERS WILL BE REQUIRED DURING THOSE CRUCIAL NEGOTIATIONS. THEREAFTER, ONGOING CONSULTING SERVICES WOULD REQUIRE ABOUT TEN MAN-YEARS' INPUT PER YEAR.

3. BEYOND NEGOTIATION PERIOD, WORK WILL INCLUDE PREPARATION OF NEW MASTER PLAN, DRAWING UP SPECIFICATIONS, SELECTION OF CONTRACTORS, ASSISTANCE IN ACCEPTANCE. AT HIS OPTION WE UNDERSTAND CONSULTANT MAY ALSO OFFER SERVICES IN COORDINATING OPERATION OF FACILITY WHEN BUILT. OUR INFORMANT STATES TELEX TO PROSPECTIVE CONSULTANTS CONTAINS FINAL CAVEAT THAT ENGAGEMENT AS CONSULTANT WILL PRECLUDE COMPANY'S SELLING EQUIPMENT OR CONSTRUCTING SERVICES. THIS IS NOT INTENDED TO EXCLUDE CONSULTANT'S POSSIBLE MANAGEMENT OR INVESTMENT ROLE.

4. OUR SOURCE WARNS THAT SHORT FUSE UNQUESTIONABLY GIVES SOFRASID A MAJOR ADVANTAGE IN RESPONDING BECAUSE THAT FIRM IS ALREADY UP TO SPEED ON ACCOUNT OF "HAVING BEEN ASKED TO DO SOMETHING ELSE" RECENTLY. WE ACCEPT THIS JUDGMENT THAT FOR THE INDONESIANS THERE IS NO PRACTICAL ALTERNATIVE TO CONDUCTING THE RESTRUCTURING THIS WAY. INVITATIONS COULD NOT BE ISSUED EARLIER BECAUSE OF JUDGMENT THAT PRESIDENT SUHARTO'S FULL SUPPORT FOR DRASTIC ACTION HAD FIRST TO BE ASSURED, AND INITIAL CONFRONTATION WITH GERMAN CONTRACTORS LAST FEW DAYS HAD TO PRECEDE APPROACH TO CONSULTANTS. THIS COSTLY DECISION NOW REQUIRES AROUND-THE-CLOCK SCHEDULE FOR INVOLVED INDONESIANS WITH EARLY AND STRONG SUPPORT FROM THEIR CONSULTANT. THEY ARE CONVINCED ANY OF THOSE ON THEIR LIST COULD DO THE JOB, AND SELECTION WILL DEPEND ON HOW FAST AND HOW FORCEFULLY THESE FOUR FIRMS RESPOND.

5. ACTION REQUESTED. REQUEST DEPARTMENT ADVISE HIGH CONFIDENTIAL

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LEVELS IN ARMCO AND MCKEE OF ABOVE DEVELOPMENTS AND STRESS NEED FOR DECISIVE, PROMPT, AND FULLY RESPONSIBLE REPLY TO ASSURE THEIR CONSIDERATION FOR SELECTION IN LIGHT OF ADVANTAGES OF SOFRASID. IF EITHER DECIDES TO FOREGO OPPORTUNITY AND WISHES WITHDRAW IN FAVOR OF OTHER U.S. FIRM SUCH AS USS ENGINEERS AND CONSULTANTS OR KAISER, WE ASSUME RESPONSE FROM THESE FIRMS WOULD HAVE TO MEET SAME

CONDITIONS AND DEADLINE AS INVITATION TO ARMCO AND  
MCKEE. WE CANNOT ASSURE THAT GOI WOULD  
ENTERTAIN ALTERNATIVE FIRM OFFERS.

6. REQUEST ALSO THAT DEPARTMENT BRIEF FIRMS WHICH  
INTEND TO RESPOND REGARDING POLITICAL COMPLEXITIES  
THIS PROJECT (REF B). SINCE THESE FIRMS BEING  
ADDRESSED DIRECTLY WE DO NOT SEE NEED FOR  
EMBASSY INTERVENTION ON THEIR BEHALF. WHILE  
RECOGNIZING FORCE BEHIND COMMERCE ARGUMENT, WE ARE  
NOT AT ALL CERTAIN GOI CONFRONTATION WITH GERMAN FIRMS  
AND POWERFUL INDONESIAN INTERESTS WITH WHOM THEY  
ARE ALLIED IS REALLY OVER. WE CONTINUE BELIEVE  
LOW U.S. OFFICIAL PROFILE ESSENTIAL TO AVOID HAVING  
EMBASSY AS WELL AS AMERICAN COMPANY LAND IN MIDDLE  
OF VERY COMPLICATED, HIGHLY POLITICAL PROBLEM.  
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## Message Attributes

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